

### [A Rare Victory for Small Business](#)

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Editorial

On Wednesday we told you about two guys from Jersey, Republican Scott Garrett and Democrat John Adler, and their looming showdown with House Financial Services Chairman Barney Frank (D., Mass.). Yesterday, the Jersey boys prevailed, as the House voted 271-153 to exempt the smallest public companies from the heaviest Sarbanes-Oxley auditing regulations.

More than 100 Democrats joined with Republicans in voting down an attempt by Mr. Frank and Paul Kanjorski (D., Pa.) to kill the Garrett-Adler amendment, which saves thousands of companies from the infamous Section 404(b) audits of "internal controls."

Companies with publicly traded shares amounting to less than \$75 million already undergo audits and already comply with most of Sarbanes-Oxley. Yet the Securities and Exchange Commission, despite its own study showing that smaller companies suffer a disproportionate compliance burden under Sarbox, has announced that next year these small-cap companies will have to comply with the full regulatory burden applied to giant multinationals.

In the midst of a political panic after accounting scandals at Enron and WorldCom, Congress passed Sarbanes-Oxley in 2002. Sold as a way to ensure the quality of corporate financial reporting, the law wasn't of much use to investors in Citigroup, Merrill Lynch, Bear Stearns, Lehman Brothers, AIG . . . but it did succeed in generating unexpectedly large compliance costs, particularly at smaller technology companies.

With yesterday's vote, Sarbox appears to have lost its last significant constituency, if one does not count the regulators, auditors and consultants who directly profit from it. And even in this last category there are second thoughts. One reader who installs Sarbox-compliant IT systems for retailers tells us that these expensive overhauls reduce productivity and raise the cost per transaction with no discernible benefit.

The only cloud to yesterday's silver lining is that Sarbox relief is still trapped inside Mr. Frank's larger bill to create a permanent bailout fund for financial regulators. Thank goodness the Frank bill has no chance of passing the Senate, but now a bipartisan effort is needed to free the legislative hostage inside. The 271 House Members who voted against senseless bureaucracy yesterday can help do so by signing a discharge petition to bring the Garrett-Adler amendment to the floor as a stand-alone bill.

At a minimum, now that the House has clearly expressed its will, SEC Chairman Mary Schapiro should extend the small-company exemption beyond next summer, and consider relief for larger firms. If President Obama is looking for a way to create jobs without spending a taxpayer dime,

Sarbox relief is made to order.